

PERAC AUDIT REPORT



Boston Contributory Retirement System

JAN. 1, 2000 - DEC. 31, 2004 / PERAC 04: 10-021-10



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

July 26, 2006

The Public Employee Retirement Administration Commission has completed an examination of the Boston Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2000 to December 31, 2004. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Carol Niemira, James Sweeney, and James Tivnan who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



Boston Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FIVE-YEAR PERIOD ENDING DECEMBER 31, 2004

1. Annual Statements

The Annual Statements filed by the Board for the five-year audit period were reviewed. It was determined that certain line item amounts contained in the Annual Statements were internally inconsistent from section to section and did not match the detail in the ending balances of the general ledger. Variances were found in Receipts, Interest Due and Accrued (gl #1550) and Interfund Transfers between what was reported on the Balance Tests page, Assets and Liabilities, Changes in Fund Balances and Receipts pages. Additional discrepancies were noted when comparing line items in the Annual Statement with the general ledger.

Monthly custodial statements have customarily been provided to PERAC in lieu of Annual Statement supporting schedules, except for Schedule 1, which in four of the five years reviewed, was incomplete. This finding is similar to one made in the previous audit report. The Board responded at that time that the volume of transactions was too unwieldy to reasonably comply. They indicated they would meet with their independent auditors to draft an alternative format. Since this has not happened, we are compelled to substantially repeat our finding on this issue.

The Annuity Savings Fund general ledger account does not agree with the balance accumulated in the membership file subsidiary records by an amount estimated at \$111 million. PERAC requires each Annual Statement contain a supplemental schedule that lists the balance of each member's deductions plus interest. This schedule must agree with the Annuity Savings Fund Account balance carried on the general ledger. This issue results when changes are made to member's accounts without corresponding adjusting entries posted to the general ledger.

Recommendations: As a sole source of information to third parties, the Annual Statement and supporting schedules must be complete and internally consistent allowing readers to make an accurate assessment of the System's financial condition without having to reference the general ledger. Prior to submission of the Annual Statement, a review process should be established to ensure all entries on the Annual Statement agree with the detailed supporting schedules using the PERAC Annual Statement Guide published each year. Differences should be corrected and reconciled to the general ledger.

In recognition of the System's large number of investment holdings and transactions, it is recommended that all required supporting schedules be submitted by providing summary totals, with detail available upon request.

The Board should take action necessary to make certain that the general ledger agrees with the membership records. All variances must be resolved to ensure that all member's individual account balances are correct. A summary page listing the accumulated totals from the subsidiary membership records should be compared to the ending balance of the Annuity Savings Fund. These records should be in agreement for each closing period.

Boston Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

FOR THE FIVE-YEAR PERIOD ENDING DECEMBER 31, 2004

Board Response:

The Board agrees with PERAC's recommendation of ensuring a complete and internally consistent Annual Statement submission and will implement recommendations into future filings. Additionally, the Board will continue to have our independent auditors review the compilation of our Annual Statement.

The Board agrees to provide summary totals for investment holdings and transactions with the filing of our Annual Statement. However, the last time PERAC reported on the issue of providing detailed supporting data for investments, the Board met with our outside auditors and presented a proposal to PERAC. PERAC rejected the proposal without any suggestion of an alternative solution that took the volume of transactions processed by the Board into consideration.

The Board is in the initial phases of a multi-year project to identify and convert our existing SBRS system to an alternative Pension Administration and Pension Disbursement system. At the time of conversion, the Board will true up the Annuity Savings account to the General Ledger.

2. Cash Reconciliation

We inspected bank reconciliations prepared by the City Treasurer's office. A single general ledger account reflects the deposit and transaction activity of the two operating cash accounts. No distinction is made in the general ledger to identify the specific activity reflected in these separate bank accounts. There were in excess of 150 checks that were outstanding for more than one year on the year-end 2004 reconciliation.

Recommendation: The City Treasurer shall be the custodian of the retirement system's funds according to G.L. c. 32, § 23(2)(a). As custodian of the retirement fund, the Treasurer is obligated to perform a monthly reconciliation of all retirement system cash accounts. This process is necessary to maintain proper internal control of the retirement system by segregating reconciliation duties. The Treasurer must be instructed to provide appropriate paperwork (bank statement, reconciliation, and outstanding check list) to the Retirement Board on a monthly basis. Due to the volume of activity represented in these accounts, we recommend the system investigate an automatic reconciliation process that integrates with the Boston Retirement System pension administration system.

Pursuant to *Everett Retirement Board v. Board of Assessors of Everett & Others*, the Boston Retirement Board is an autonomous, self-governing unit, and therefore is responsible for all activity in its bank accounts. If available to the City Treasurer, the Board should request online access to its bank accounts to review monthly activity as it occurs.

Boston Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

FOR THE FIVE-YEAR PERIOD ENDING DECEMBER 31, 2004

Separate general ledger accounts should be maintained to record the specific activity for each bank account. This will more readily allow for the confirmation of all transactions from these financial activities.

The Board does research checks that have been outstanding for more than six months, but does not currently utilize a process to determine which should be voided. A process for the proper voiding and recording of these items must be implemented.

Board Response:

The City Treasurer and the Board independently reconciles all cash accounts on a monthly basis. Each month the City Treasurer provides the Board with their cash reconciliation, a listing of outstanding checks, and makes all bank statements available upon request. The Board will ask for copies of all bank statements on a monthly basis in the future.

Further, the Board will pursue the use of an auto reconciliation feature when we upgrade our pension administration system to enhance the overall reconciliation process. Also, at this time, the Board will evaluate the general ledger structure to ensure that all accounts, including the check issuance funding account, are on the general ledger.

The Treasury maintains separate ledgers for each of the Retirement Board accounts. Each account is reconciled individually to their respective ledger. When the reconciliation process is complete, the Treasury forwards to the Retirement Board electronic copies of all bank reconciliations, which includes a listing of all paid checks, a listing of all outstanding checks, as well as, a listing of all returned direct deposits.

The total of all of the Treasury's ledgers should equal the balance in the retirement ledger plus any outstanding checks/direct deposit returns from the payroll accounts, and plus/minus any adjustments from all reconciliations.

3. Annuity Reserve Interest Calculation

The Boston Retirement Board's Annuity Reserve Fund (ARF) interest calculations through 2003 were overstated due to interest being compounded monthly instead of posted once at each year-end. Additionally, in 2003 a transfer to the ARF listed on the Annual Statement was posted to a different account on the general ledger, and in June and September 2004 annuity payments were erroneously booked to the Pensions Paid account, resulting in the Annuities Paid account being understated at its year-end close to the ARF. As a result of these errors and omissions, the annuity reserve fund is overstated by \$7,449,441.33, as of December 31, 2004.

Boston Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

FOR THE FIVE-YEAR PERIOD ENDING DECEMBER 31, 2004

Recommendation: The new, automated accounting system will correctly calculate the annuity reserve interest, but only if activity is booked to the correct general ledger accounts during the month in which it occurs. A debit adjustment to the ARF must be made to the 2005 general ledger in the amount of \$7,449,441.33, with a credit of \$7,273,701.46 to the Pension Fund for Annuities Paid and a credit of \$175,739.87 to the Pension Reserve Fund to correct ARF interest.

Board Response:

The Board Agrees with PERAC's recommendation and the suggested adjusting journal entries were booked with an effective date of 1/31/2005.

4. Appropriations

The City of Boston and other reporting and participating units have been approved to remit payment monthly for their portion of the annual appropriation. The Boston Housing Authority remitted payment for its portion of the assigned appropriation on an intermittent basis and in amounts that did not correspond to its assigned appropriation level. Delay in payment to an approved funding schedule is a serious matter. This practice makes it difficult to maintain accurate records.

Recommendation: Funding on an approved schedule incorporates many factors involving the time value of money, interest, and anticipated future obligations to members. The Board is required to collect payment from all participating units according to the schedule agreed to and approved by PERAC. Deviations from the approved funding schedule for appropriations should be reported to the PERAC actuarial unit on an annual basis.

Board Response:

The Board agrees with the comment and as discussed during the audit fieldwork, the Board no longer accepts weekly appropriation payments from the Boston Housing Authority.

5. Expenses

A review of selected expenses disclosed that the Board does not approve expenditures incurred in connection with the operation of the System. Expenses should be presented to the Board in a formal manner for approval at each periodic meeting. Chapter 32 requires a majority of the Board to authorize all expenses incurred in the administration of the System.

Recommendation: G.L. c. 32, § 23(2)(a) states "...that the ...city ...treasurer shall have the custody of the funds of the retirement system. Payments from such funds shall be made by the treasurer only upon vouchers signed by two persons designated by the board of any such system by a vote, a duly attested copy of which, bearing upon its face specimen signatures of such persons, shall be filed with the treasurer-custodian as his authority for making payments upon vouchers so signed. No voucher shall be drawn unless it shall have been authorized by vote of the board." The Board must comply with this statute.

Boston Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

FOR THE FIVE-YEAR PERIOD ENDING DECEMBER 31, 2004

Board Response:

The Board approves all warrants at the next Board Meeting immediately following their payment. As discussed and agreed to at the Exit Conference, any other application of this approval process would result in vendors not being paid in a timely manner.

6. Membership

We identified a number of members with an invalid membership date (1/1/1901). We attempted to inspect the actual files for a sample of these members. Only four of forty files requested could be located. There are many persons (estimated at over 500) for which new member enrollment forms have not been collected. This makes it difficult to confirm that the correct contribution rate has been assigned to all members. Our inspection of the payroll detail revealed several issues that were not resolved in a timely manner. These related to several payroll codes assigned as exempt from retirement, persons assigned deduction codes that were invalid and earnings codes that were not supported by a sufficient explanation. The result was our observation that the Boston Retirement Board is not sufficiently active in the oversight of the payroll and retirement deductions generated by participating member units. The Board should not be relying on nor have delegated technical interpretation of Chapter 32 rules relating to what constitutes regular compensation qualifying for retirement to payroll, union or similar persons not otherwise familiar with or qualified to interpret these rules on an objective and impartial basis.

Recommendation: It is a primary fiduciary responsibility of the system to ensure accurate records of members' contributions. This can only be accomplished by exercising a significant level of management supervision over the reporting details provided by the payroll systems used by these member units. The Retirement Board should insist that all new pay codes created indicate whether they qualify toward retirement compensation or are ineligible for retirement compensation. This requires an ongoing commitment by the Board and a requirement by the payroll-reporting units for full and fair disclosure of all details pertaining to all payroll codes.

Board Response:

The present system did not come online until 1998. Historically, member enrollment forms were not required, sought or filed with the Board. In establishing a membership file, those who did not have an enrollment form were given a default date of 1/1/1901. This alerts anyone handling the member's account to request an enrollment form. Past efforts requesting member units to have enrollment forms completed and returned were unsuccessful. More recently, we have been getting the cooperation of member units in complying with the enrollment requirements.

Payroll codes – For more than two years, the SBRS has been meeting with BAIS and the Auditor with regard to earning codes eligible for retirement. This is a continuing process. The Auditors are confusing job codes, which we have no control over. The Board acts aggressively to ensure an accurate accounting of regular compensation of members and does not rely on employee units to interpret Chapter 32.

Boston Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

FOR THE FIVE-YEAR PERIOD ENDING DECEMBER 31, 2004

7. Needham Bill

The management letter prepared by the independent auditors of the Boston Retirement System noted the Retirement Board has waived collection of over \$1 million of miscalculated contributions under the provisions of the Needham Bill (G.L. c. 32, §20 (5)(c)(3) that allows for such forgiveness. These issues continue to arise as member files are reviewed in anticipation of retirement and in resolving conversion problems. Our concern is that the extent of additional exposure to losses in this area is unknown and could be extensive.

Recommendation: The essential records of the Retirement Board need to be upgraded as rapidly as possible. A cogent and attainable master plan needs to be developed that incorporates clearly defined goals and objectives for the information technology systems required to be maintained in this environment.

Board Response:

As a result of historical neglect to properly identify the correct rate of contribution, the Board employed two contract employees to search the records and identify employees contributing at the wrong rate. To date, we have identified over 1,700 members contributing at the wrong rate. Over a year ago the Board and the City of Boston implemented a policy that requires all new or returning employees to contribute 9+2%. If the rate needs to be adjusted down, we do this after a verification check. If necessary, excess contributions are refunded.

8. Retirees

We inspected selected files of recent members who retired during the audit period. We generally observed that current and relevant payroll and credible service data was present to support the retirement benefit awarded. One member inspected was granted a disability retirement in 2005. The annuity factors used to compute his benefit were those in effect prior to July 1, 2004. The decision was based on the fact that the member had taken a superannuation retirement in 2003, pending his disability application, and therefore retired prior to July 1, 2004.

Recommendation:

Any retirement effective after July 1, 2004 requires that the new PERAC annuity factors be used. The Board must recalculate the benefits of all members who have retired under the conditions listed above and make retroactive benefit payments. One staff member estimates that approximately 30 members fall into this retirement scenario.

Board Response:

The Board has taken the position that a member retired on superannuation has an effective date of retirement as of that date. If the member then files for section 7 benefits and is found eligible for section 7 benefits, the effective date is retroactive to the date of retirement for superannuation, (See *Leal v. CRAB*, 42 Mass App Ct. 330). If the date is prior to July 1, 2004, the new schedule does not apply.

Boston Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

FOR THE FIVE-YEAR PERIOD ENDING DECEMBER 31, 2004

9. Permanent Records

We requested details of records contained in subsidiary ledgers dating back to calendar years 2000. Warrants for payments prior to July 2002 were similarly selected for confirmation. These primary records could not be located or were not made available to us on a timely basis.

Recommendation: The essential records of the Retirement Board need to be safeguarded in accordance with the Massachusetts Public Records Law. The provisions concerning public records are cited in G. L. c. 4, § 7 (26) and in G. L. c. 66, § 10 as well as related statutes. The minimum requirements for record retention are indicated on the web site of the Secretary of the Commonwealth (DS 17/90 rev. 2/91). Failure to comply with these guidelines is evidence of a system that is not operating efficiently by maintaining the essential records required to document compliance with the requirements of Chapter 32.

Board Response:

Records were stored in a city facility until several years ago. The Board was required to vacate that facility and as a result, a vast number of records were stored at ARM. They are required to keep a list and be able to retrieve records as requested. The more recent records are stored at Boston City Hall. The members' records are logged in as to status and a record is kept of the location, copy enclosed. Financial records are generically stored.

10. Safety, Security and File Integrity

We observed the Retirement Board maintains its essential files and records in an area that is largely unsecured, open and accessible to employees and others. This exposes critical data to potential loss or misplacement. In addition, the office space for staff is not configured to provide an adequate level of confidentiality to members who seek retirement counseling in person or by telephone.

Recommendation: The essential records of the Retirement System need to be safeguarded in accordance with the fiduciary responsibility assigned to Board members. PERAC memorandum #19/2003 entitled "Privacy and Security of Boards' Records, Documents and Communications" discusses the need for retirement offices to safeguard essential records and the privacy of members who seek their counsel. Members' files and records should be kept in an area that has limited access and is secured by lock mechanisms on all file drawers. A log record should be instituted to more easily locate and track files that are removed for inspection. The Board is required to provide adequate space to conduct retirement counseling for its members in private.

Board Response:

The Board acknowledges that member records, which contain sensitive information, are not secured. Space is limited, but we continue to seek a safe and secure area for our records. We have assigned an employee the responsibility of tracking all folders, and a log is kept on all files taken out of the file area.

Boston Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

FOR THE FIVE-YEAR PERIOD ENDING DECEMBER 31, 2004

Administrative Observations

The primary database for the 20,882 active members who participate in the System and the 13,878 members who receive benefits from the System is based on a series of antiquated COBOL language programs. These older technologies have limited current and future available support. The Retirement Board should consider converting this information to a current database technology. This may improve the information flow and significantly benefit all users.

It was observed that the Suffolk County Sheriff's Department did not remit payments for its portion of the assigned appropriation at the end of calendar year 2003. Payment was delayed due to budget and financial constraints until 2004. It was noted that interest was charged when payment was ultimately realized. The Board should be commended for their attention to this detail.

Final Determination

PERAC auditors will follow-up in six (6) months to ensure that the appropriate actions have been taken regarding the audit findings.

Boston Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FIVE-YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2004**

FOR THE PERIOD ENDING DECEMBER 31,				
ASSETS	2004	2003	2002	2001
Cash	\$328,824,821	\$101,277,824	\$157,124,237	\$91,967,888
Short Term Investments	0	2,613,257	31,267,951	40,127,242
Fixed Income Securities	493,104,176	474,741,412	498,450,114	596,683,846
Equities	1,598,379,224	1,649,559,419	1,260,191,705	1,385,290,645
Pooled Short Term Funds				
Pooled Domestic Equity Funds				
Pooled International Equity Funds				
Pooled Global Equity Funds				
Pooled Domestic Fixed Income Funds				
Pooled International Fixed Income Funds				
Pooled Global Fixed Income Funds				
Pooled Alternative Investment Funds	229,229,624	82,726,713	59,789,045	53,167,881
Pooled Real Estate Funds	170,788,907	191,996,798	221,683,181	250,187,077
Pooled Domestic Balanced Funds				
Pooled International Balanced Funds	855,649,366	716,898,741	431,872,895	530,198,216
PRIT Cash Fund				
PRIT Core Fund				
Interest Due and Accrued	7,053,047	8,859,610	11,253,521	6,799,517
Accounts Receivable	148,126,050	102,950,047	271,378,126	129,709,745
Accounts Payable	(283,314,999)	(94,807,888)	(270,133,251)	(103,249,533)
TOTAL	<u>\$3,547,840,216</u>	<u>\$3,236,815,933</u>	<u>\$2,672,877,524</u>	<u>\$2,980,882,524</u>
FUND BALANCES				
Annuity Savings Fund	\$1,104,961,730	\$1,051,204,053	\$1,030,847,809	\$995,817,069
Annuity Reserve Fund	370,985,713	353,114,173	302,903,806	261,387,280
Pension Fund	638,546,946	753,617,241	794,811,730	804,317,749
Military Service Fund	48,033	47,747	60,309	60,534
Expense Fund	0	0	0	0
Pension Reserve Fund	1,433,297,794	1,078,832,719	544,253,870	919,299,892
TOTAL	<u>\$3,547,840,216</u>	<u>\$3,236,815,933</u>	<u>\$2,672,877,524</u>	<u>\$2,980,882,524</u>

NOTE: Information for 2000 is not shown on this and the following charts, but available upon written request.

Boston Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FIVE-YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2004**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2001)	\$943,896,593	\$240,118,921	\$806,032,233	\$59,405	\$0	\$1,188,420,118	\$3,178,527,270
Receipts	110,499,056	7,402,326	168,275,940	1,129	10,249,761	(222,998,167)	73,430,045
Interfund Transfers	(45,641,860)	45,962,247	45,801,672	0	0	(46,122,059)	0
Disbursements	<u>(12,936,720)</u>	<u>(32,096,214)</u>	<u>(215,792,096)</u>	<u>0</u>	<u>(10,249,761)</u>	<u>0</u>	<u>(271,074,791)</u>
Ending Balance (2001)	995,817,069	261,387,280	804,317,749	60,534	0	919,299,892	2,980,882,524
Receipts	115,442,988	8,183,236	173,542,733	833	11,187,709	(325,270,083)	(16,912,584)
Interfund Transfers	(67,445,466)	68,258,185	48,964,278	(1,058)	0	(49,775,939)	0
Disbursements	<u>(12,966,782)</u>	<u>(34,924,895)</u>	<u>(232,013,030)</u>	<u>0</u>	<u>(11,187,709)</u>	<u>0</u>	<u>(291,092,416)</u>
Ending Balance (2002)	1,030,847,809	302,903,806	794,811,730	60,309	0	544,253,870	2,672,877,524
Receipts	113,595,293	9,768,725	176,214,146	477	11,214,488	581,169,584	891,962,713
Interfund Transfers	(81,557,639)	81,837,793	49,963,767	(13,039)	0	(46,590,735)	3,640,147
Disbursements	<u>(11,681,410)</u>	<u>(41,396,151)</u>	<u>(267,372,402)</u>	<u>0</u>	<u>(11,214,488)</u>	<u>0</u>	<u>(331,664,451)</u>
Ending Balance (2003)	1,051,204,053	353,114,173	753,617,241	47,747	0	1,078,832,719	3,236,815,933
Receipts	112,697,947	10,590,415	178,364,367	286	12,868,460	354,465,075	668,986,550
Interfund Transfers	(44,898,254)	44,937,134	(38,880)	0	0	0	0
Disbursements	<u>(14,042,016)</u>	<u>(37,656,009)</u>	<u>(293,395,782)</u>	<u>0</u>	<u>(12,868,460)</u>	<u>0</u>	<u>(357,962,267)</u>
Ending Balance (2004)	<u>\$1,104,961,730</u>	<u>\$370,985,713</u>	<u>\$638,546,946</u>	<u>\$48,033</u>	<u>\$0</u>	<u>\$1,433,297,794</u>	<u>\$3,547,840,216</u>

Boston Retirement System

STATEMENT OF INCOME

**FOR THE FIVE-YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2004**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2004	2003	2002	2001
Annuity Savings Fund:				
Members Deductions	\$102,875,597	\$95,900,947	\$96,206,325	\$87,238,866
Transfers from other Systems	1,191,148	2,152,093	1,800,397	2,721,168
Member Make Up Payments and Redeposits	2,323,978	5,233,775	3,494,827	2,604,987
Investment Income Credited to Member Accounts	<u>6,307,224</u>	<u>10,308,478</u>	<u>13,941,439</u>	<u>17,934,035</u>
Sub Total	<u>112,697,947</u>	<u>113,595,293</u>	<u>115,442,988</u>	<u>110,499,056</u>
Annuity Reserve Fund:				
Investment Income Credited Annuity Reserve Fund	<u>10,590,415</u>	<u>9,768,725</u>	<u>8,183,236</u>	<u>7,402,326</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	1,413,378	1,437,685	1,039,692	981,370
Received from Commonwealth for COLA and Survivor Benefits	6,958,934	16,582,541	16,535,307	17,408,822
Pension Fund Appropriation	<u>169,992,055</u>	<u>158,193,920</u>	<u>155,967,734</u>	<u>149,885,748</u>
Sub Total	<u>178,364,367</u>	<u>176,214,146</u>	<u>173,542,733</u>	<u>168,275,940</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	0	0	0	0
Investment Income Credited Military Service Fund	<u>286</u>	<u>477</u>	<u>833</u>	<u>1,129</u>
Sub Total	<u>286</u>	<u>477</u>	<u>833</u>	<u>1,129</u>
Expense Fund:				
Expense Fund Appropriation	51,015	49,852	141,647	138,050
Investment Income Credited to Expense Fund	<u>12,817,445</u>	<u>11,164,636</u>	<u>11,046,062</u>	<u>10,111,711</u>
Sub Total	<u>12,868,460</u>	<u>11,214,488</u>	<u>11,187,709</u>	<u>10,249,761</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	5,300,071	4,830,165	4,698,097	2,724,126
Pension Reserve Appropriation	0	0	0	0
Interest Not Refunded	186,153	189,780	217,265	226,260
Excess Investment Income	<u>348,978,851</u>	<u>576,149,639</u>	<u>(330,185,445)</u>	<u>(225,948,553)</u>
Sub Total	<u>354,465,075</u>	<u>581,169,584</u>	<u>(325,270,083)</u>	<u>(222,998,167)</u>
TOTAL RECEIPTS	<u>\$668,986,550</u>	<u>\$891,962,713</u>	<u>(\$16,912,584)</u>	<u>\$73,430,045</u>

Boston Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE FIVE-YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2004**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2004	2003	2002	2001
Annuity Savings Fund:				
Refunds to Members	\$10,709,982	\$9,295,464	\$10,077,215	\$9,138,325
Transfers to other Systems	3,332,034	2,385,946	2,889,567	3,798,395
Sub Total	<u>14,042,016</u>	<u>11,681,410</u>	<u>12,966,782</u>	<u>12,936,720</u>
Annuity Reserve Fund:				
Annuities Paid	36,642,793	40,543,560	34,146,852	31,419,900
Option B Refunds	1,013,216	852,591	778,043	676,314
Sub Total	<u>37,656,009</u>	<u>41,396,151</u>	<u>34,924,895</u>	<u>32,096,214</u>
Pension Fund:				
Pensions Paid				
Regular Pension Payments	216,303,967	192,694,920	162,453,282	149,703,746
Survivorship Payments	8,114,166	8,153,156	8,449,405	7,576,176
Ordinary Disability Payments	3,285,111	3,351,527	2,978,303	3,216,217
Accidental Disability Payments	40,577,557	37,953,046	35,289,023	32,979,024
Accidental Death Payments	13,300,906	13,185,740	12,781,137	12,823,244
Section 101 Benefits	2,365,157	2,307,970	2,243,317	2,194,521
3 (8) (c) Reimbursements to Other Systems	9,448,918	9,726,043	7,818,563	7,299,168
State Reimbursable COLA's Paid	-	-	-	-
Chapter 389 Beneficiary Increase Paid	-	-	-	-
Sub Total	<u>293,395,782</u>	<u>267,372,402</u>	<u>232,013,030</u>	<u>215,792,096</u>
Military Service Fund:				
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:				
Board Member Stipend	17,069	11,892	12,431	8,965
Salaries	1,935,394	1,694,116	1,885,912	1,807,614
Legal Expenses	54,942	90,680	66,151	75,921
Medical Expenses	13,201	17,618	14,447	13,684
Travel Expenses	32,529	3,042	12,937	8,301
Administrative Expenses	306,151	140,645	132,680	136,740
Furniture and Equipment	56,141	38,352	20,541	78,612
Management Fees	9,311,464	8,326,528	8,162,592	7,226,243
Custodial Fees	428,353	398,604	425,307	444,380
Consultant Fees	713,216	493,011	454,711	449,301
Sub Total	<u>12,868,460</u>	<u>11,214,488</u>	<u>11,187,709</u>	<u>10,249,761</u>
TOTAL DISBURSEMENTS	<u>\$357,962,267</u>	<u>\$331,664,451</u>	<u>\$291,092,416</u>	<u>\$271,074,791</u>

Boston Retirement System

INVESTMENT INCOME

**FOR THE FIVE-YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2004**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2004	2003	2002	2001
Investment Income Received From:				
Cash	\$5,950,668	\$661,956	\$1,955,544	\$5,260,888
Short Term Investments	0	0	0	0
Fixed Income	26,278,910	23,948,360	27,009,688	31,489,736
Equities	18,834,404	13,405,091	12,579,262	9,589,800
Pooled or Mutual Funds	27,052,593	<u>37,044,460</u>	<u>34,947,727</u>	<u>31,037,963</u>
Commission Recapture	<u>195,560</u>			
TOTAL INVESTMENT INCOME	<u>78,312,135</u>	<u>75,059,867</u>	<u>76,492,221</u>	<u>77,378,387</u>
Plus:				
Increase in Amortization of Fixed Income Securities				
Realized Gains	65,076,164	107,028,328	19,447,976	16,664,914
Unrealized Gains	403,084,592	493,109,772	53,627,747	26,856,341
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>11,645,185</u>	<u>6,725,874</u>	<u>11,099,596</u>	<u>6,799,517</u>
Sub Total	<u>479,805,941</u>	<u>606,863,974</u>	<u>84,175,319</u>	<u>50,320,772</u>
Less:				
Decrease in Amortization of Fixed Income Securities				
Paid Accrued Interest on Fixed Income Securities	(1,690,783)	(2,407,689)	(5,182,653)	(5,570,745)
Realized Loss	(5,996,643)	(57,712,890)	(197,929,459)	(92,277,012)
Unrealized Loss	(165,010,555)	(3,424,150)	(247,898,313)	(212,677,641)
Custodial Fees Paid	-	-	-	-
Consultant Fees Paid	-	-	-	-
Management Fees Paid	-	-	-	-
Board Member Stipend	-	-	-	-
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(6,725,874)</u>	<u>(11,099,596)</u>	<u>(6,799,517)</u>	<u>(7,756,755)</u>
Sub Total	<u>(179,423,855)</u>	<u>(74,644,325)</u>	<u>(457,809,942)</u>	<u>(318,282,153)</u>
NET INVESTMENT INCOME	<u>378,694,221</u>	<u>607,279,516</u>	<u>(297,142,402)</u>	<u>(190,582,994)</u>
Income Required:				
Annuity Savings Fund	6,307,224	10,308,478	13,941,439	17,934,035
Annuity Reserve Fund	10,590,415	9,656,287	8,054,708	7,318,684
Military Service Fund	286	477	833	1,129
Expense Fund	<u>12,817,445</u>	<u>11,164,635</u>	<u>11,046,063</u>	<u>10,111,711</u>
TOTAL INCOME REQUIRED	<u>29,715,370</u>	<u>31,129,877</u>	<u>33,043,043</u>	<u>35,365,559</u>
Net Investment Income	<u>378,694,221</u>	<u>607,279,516</u>	<u>(297,142,402)</u>	<u>(190,582,994)</u>
Less: Total Income Required	<u>29,715,370</u>	<u>31,129,877</u>	<u>33,043,043</u>	<u>35,365,559</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>\$348,978,851</u>	<u>\$576,149,639</u>	<u>(\$330,185,445)</u>	<u>(\$225,948,553)</u>

Boston Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE FIVE-YEAR PERIOD ENDING DECEMBER 31, 2004

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$328,824,821	8.95%	100
Short Term		0.00%	100
Fixed Income	493,104,176	13.41%	20 - 80
Equities	1,598,379,224	43.48%	60
Pooled Short Term Funds		0.00%	
Pooled Domestic Equity Funds		0.00%	
Pooled International Equity Funds		0.00%	
Pooled Global Equity Funds		0.00%	
Pooled Domestic Fixed Income Funds		0.00%	
Pooled International Fixed Income Funds		0.00%	
Pooled Global Fixed Income Funds		0.00%	
Pooled Alternative Investment Funds	229,229,624	6.24%	
Pooled Real Estate Funds	170,788,907	4.65%	5
Pooled Domestic Balanced Funds		0.00%	
Pooled International Balanced Funds	855,649,366	23.28%	
PRIT Cash Fund		0.00%	
PRIT Core Fund		0.00%	100
GRAND TOTALS	<u>\$3,675,976,118</u>	<u>100.00%</u>	

For the year ending December 31, 2004, the rate of return for the investments of the Boston Retirement System was 12.01%. For the five year period ending December 31, 2004, the rate of return for the investments of the Boston Retirement System averaged 3.90%. For the twenty-year period ending December 31, 2004, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the Boston Retirement System was 10.30%.

Boston Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE FIVE-YEAR PERIOD ENDING DECEMBER 31, 2004

The Boston Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

June 14, 2005

16.08

In accordance with PERAC Investment Guideline 99-3, the Boston Retirement Board is authorized to invest in the Siguler Guff Distressed Opportunities Fund II. The Board has been a satisfied investor in Siguler Guff Distressed Opportunities Fund I, the new fund has essentially the same management team and strategy as the existing one, and the Board has submitted all the required regulatory documents.

16.08

In accordance with PERAC Investment Guideline 99-3, the Boston Retirement Board is authorized to invest in the Sterling Capital Partners II. The Board has been a satisfied investor in Sterling Capital Partners I, the new fund has essentially the same strategy and management team, and the Board has submitted all the required regulatory documents.

16.08

In accordance with PERAC Investment Guideline 99-3, the Boston Retirement Board is authorized to invest in Lexington Middle Market Investors, LP. The Board has been a satisfied investor in Lexington Advisors' predecessor fund, Lexington Capital Ventures V, which has had excellent performance to date. The new fund, focusing on middle market U.S. buyout funds, is more narrowly focused than the previous fund but will be managed by the same investment team under similar strategic investment principles.

October 27, 2004

21.01

For the sole purpose of the Boston Retirement Board's investment in Ivy Asset Management's Maplewood Associates, II, LP, the provisions of 840 CMR 21.01(1), 21.01(2), 21.02(3), 21.01(5), and 21.01(6) shall not apply.

21.01

For the sole purpose of the Boston Retirement Board's investment in Mesirow Advanced Strategies' Absolute Return Fund, the provisions of 840 CMR 21.01(1), 21.01(2), 21.02(3), 21.01(5), and 21.01(6) shall not apply.

21.01

For the sole purpose of the Boston Retirement Board's investment in Arden Asset Management's Endowment Advisors Fund, the provisions of 840 CMR 21.01(1), 21.01(2), 21.02(3), 21.01(5), and 21.01(6) shall not apply.

Boston Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (CONTINUED)

FOR THE FIVE-YEAR PERIOD ENDING DECEMBER 31, 2004

October 12, 2004

16.08

In accordance with Investment Guideline 99-3, the Boston Retirement Board is authorized to invest in Sanderling Ventures VI. The board has been a satisfied investor in the predecessor fund, Sanderling Ventures V, and the new fund has the same investment strategy and management team as the existing one.

16.08

In accordance with Investment Guideline 99-3, the Boston Retirement Board is authorized to invest in Prudential Capital Partners II. The board has been a satisfied investor in the predecessor fund, Prudential Capital Partners I, and the new fund has the same investment strategy and management team as the existing one.

March 8, 2004

16.08

In accordance with Investment Guideline 99-3, the Boston Retirement Board may invest in Venture Lending & Leasing IV. The Board has been a satisfied investor in the predecessor fund, Venture Lending & Leasing III, and has submitted updated regulatory documents pertaining to this investment.

March 14, 2003

16.08

The Boston Retirement Board may commit up to \$8,559,510 to the Hearthstone Multi-State Residential Value-Added Fund III. This represents the amount committed to but not yet called in the Board's investment in the predecessor fund, Hearthstone MS II. The Boston Retirement Board may commit \$10,000,000 to the LaSalle Income and Growth Fund III. Funds from this investment will come totally from return of capital from the Board's investment in the predecessor fund, LaSalle II.

February 4, 2003

16.08

In accordance with Investment Guideline 99-3, the Boston Retirement Board may invest in the Vanguard VI Annex Fund, LP. This Annex Fund has recently been opened and is essentially a follow-on investment to the Vanguard VII Fund in which the Boston Retirement Board has been invested since 2000. The Board has had a satisfactory relationship with Vanguard and has submitted the required documentation relative to this new investment.

March 24, 2000

16.08

The Boston Retirement Board may invest in the Thomas H. Lee Equity Fund V, L.P. The board has invested in three prior TH Lee partnerships and has submitted the appropriate data and documents in support of this request.

Boston Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (CONTINUED)

FOR THE FIVE-YEAR PERIOD ENDING DECEMBER 31, 2004

February 7, 2000

16.08

In accordance with PERAC Investment Guideline 99-3, the Boston Retirement Board may invest in TH Lee. Putnam Internet Partners, L.P. The board has been a participant in two previous TH Lee Partnerships with very satisfactory returns. The management team for this partnership is the same entity as the previous ones; the name change refers to a corporate reorganization under which Putnam Investments, Inc. now owns 25% of the capital interests. The technology focus of the new partnership will provide diversification to the Board's private equity investments in that the previous partnerships have focussed on more traditional industries.

December 19, 1989

20.06(2)

Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond rating services; however, 10% of the market value of fixed income investments may be invested in bonds with a minimum quality rating of B or equivalent or better as rated by one or more recognized bond rating services.

August 11, 1987

16.02(2)

No person who is not a qualified investment advisor as defined by 840 CMR 16.01(4) shall advise any board on investments or manage on behalf of any board the funds of any system; provided however, there shall be an investment advisory committee which shall, upon a majority vote of the full committee, make or recommend investments not otherwise made or recommended by investment advisors managing retirement system assets pursuant to 840 CMR 19.00. Said committee shall consist of the elected, ex officio and appointed members of the retirement board, the Assistant City Auditor, Charles M. White, and a representative of each investment advisor managing retirement system assets pursuant to 840 CMR 19.00. There shall be a minimum of five such investment advisors on the committee at all times.

July 15, 1987

20.04(1)

United States based corporations and equities of foreign corporations.

20.07(5)

Equity investments shall be made only in securities listed on a United States Stock Exchange, traded over the counter in the United States, or listed and traded on the foreign exchanges of the countries listed in the attached Exhibit I.

20.08(f)

Cash or cash equivalent investments may be made in the foreign currencies of the countries listed in Exhibit I, however, foreign currency speculation is prohibited.

Boston Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (CONTINUED)

FOR THE FIVE-YEAR PERIOD ENDING DECEMBER 31, 2004

March 6, 1987

20.06(8)

Sales of fixed income investments with maturities exceeding one year shall not exceed 200% of the market value of all fixed income obligations in any twelve month period, excluding cash and short term obligations.

December 11, 1986

20.08(e)

Enrollment in Securities Lending Programs offered by a custodian bank.

December 1, 1986

10.09(3)

All venture capital investments shall be made in U.S. based corporations.

August 6, 1986

20.03(1)

Equity investments shall not exceed 60% of the total book value of the portfolio at the time of purchase.

20.03(2)

At least 20% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year.

June 27, 1986

20.07(9)

Real estate investments shall not exceed 5% of the total book value of the portfolio at the time of purchase and shall consist of real estate trusts and real estate limited partnerships, provided that:

(a) trust participants or limited partners do not participate in the selection of trustees or general partners, and

(b) such trustees or general partners retain authority in the decision making process, and

(c) should an investment in a trust or limited partnership result in the direct ownership of real estate, such shall be permitted only until such time as divestiture of said trust or limited partnership is prudent.

Boston Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE FIVE-YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all Boston Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Boston Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FIVE-YEAR PERIOD ENDING DECEMBER 31, 2004

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Boston Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FIVE-YEAR PERIOD ENDING DECEMBER 31, 2004

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Boston Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

October 2, 2002

Rule 2000-5: Retirement Credit For Service Rendered As A Part-Time Member

(1) A member whose entire service is in a part-time position shall receive one year of creditable service for each year worked provided the member works the number of hours required by the position held.

Boston Retirement System

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE FIVE-YEAR PERIOD ENDING DECEMBER 31, 2004

Rule 2000-5, continued:

(2) A member employed on a part-time basis who becomes full-time shall receive credit for his part-time service on a pro-rated basis as it relates to a full-time position.

(3) A member employed on a full-time basis who becomes part-time shall receive credit for his part-time service on a pro-rated basis as it relates to a full-time position.

(4) Part-time membership service performed on or before November 21, 2000 shall be credited with full-time service. Thereafter, all part-time service shall receive credit in accordance with the rules stated in this regulation.

January 26, 2001

Rule 2001-1: Teachers In The Public Schools Of The City Of Boston

A "teacher," is any person employed under a contract with the Boston School Committee on a basis of not less than half-time service who

(a) is deemed to be a teacher by the Boston School Committee and

(b) performs services in a job title included in or substantially similar to those enumerated in Mass. Gen. Laws. c. 32, § 1, paragraph 55 ("Teacher") or Mass. Gen. Laws. c.71, § 38G, paragraph 19, and

(c) (i) holds a certificate required by the Board of Education of the Commonwealth or

(ii) has been granted a waiver pending certification by the Board of Education, or

(iii) has been approved as an apprentice teacher in accordance with the provisions of St. 1985, c. 188, § 21 or

(iv) is exempted from the requirement of certification by the Commissioner of Education upon the request of the superintendent or by law or regulation.

Rule 2000-5: Retirement Credit For Service Rendered As A Part-Time Member

(1) A member whose entire service is in a part-time position shall receive one year of creditable service for each year worked provided the member works the number of hours required by the position held.

(2) A member employed on a part-time basis who becomes full-time shall receive credit for his part-time service on a pro-rated basis as it relates to a full-time position.

(3) A member employed on a full-time basis who becomes part-time shall receive credit for his part-time service on a pro-rated basis as it relates to a full-time position.

(4) Any member employed on a part-time basis on or before November 21, 2000, shall receive creditable service as though full-time creditable service had been performed.

NOTE: This Regulation was amended October 2, 2002

September 27, 2000

Boston Retirement Rule 2000-2 regulates the buyback of up to four years of maternity leave by teachers who are members of the State-Retirement System, as permitted by G.L. c. 32, § 4(1)(g-1/2), which was inserted by Chapter 114 of the Acts of 1999.

Boston Retirement System

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE FIVE-YEAR PERIOD ENDING DECEMBER 31, 2004

June 9, 1999

Buy-backs Of Military Service

Upon receipt of a member's application for military credit under c. 71 of the Acts of 1996, the Board shall further prepare a bill for the cost of the buyback. Upon the member's receipt of a bill for the military service credit, the member must within 60 days of receipt of the bill, either (i) pay the bill in full or (ii) enter into a payment schedule for full payment of the bill.

Payment schedules for the buyback of military service credit shall be available to a member whose buyback bill exceeds \$1,000.00. Payment schedules must be completed within a five-year period or before the member retires, whichever comes first. No interest shall be charged over the period of the payment schedule. The Board may extend the five-year maximum payment period upon a showing by the member that the monthly payment amount for a five-year period would create an undue hardship upon the member.

September 17, 1996

Election Rules Supplementary rule relating to procedures for board election under c. 306 approved.

March 26, 1991

Form Approval of "Disability Retiree Medical Questionnaire" for use by Board in processing cases under G.L. c. 32, § 8.

November 28, 1990

Form Approval of "Disability Retiree Employment and Earnings Form" for use by Board.

June 20, 1990

Election Rules Supplementary rule authorizing a 60 day notice period for the retirement board election approved.

November 9, 1987

Creditable Service

In the case of any member who established credit for part time service rendered in a governmental unit covered by this system prior to his or her current period of membership, such credit will be allowed for the amount of actual service rendered as it bears to full-time service for the same or similar position.

January 6, 2004

The Board has adopted Travel Supplemental Regulations under the provisions of G.L. c.7, § 50 and G.L. c.32, § 21(4). (Regulations available upon written request.)

Boston Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the City Auditor who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Sally D. Glora

Appointed Member: Brendon McDonough Term Expires: Indefinite

Elected Member: Lawrence R. Curran Term Expires: 9/30/05

Elected Member: Edward A. Welch Term Expires: 9/30/05

Appointed Member: John J. Perkins Term Expires: 1/15/06

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex officio Member:)	\$10,000,000 National Union
Elected Member:)	Fire Insurance Co. of Pittsburgh, PA
Appointed Member:)	
Staff Employee:)	

Boston Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the The Segal Group as of January 1, 2004.

The actuarial liability for active members was	\$2,611,620,736
The actuarial liability for inactive members was	56,483,267
The actuarial liability for retired members was	<u>2,752,737,677</u>
The total actuarial liability was	5,420,841,680
System assets as of that date were	<u>3,384,813,539</u>
The unfunded actuarial liability was	<u>\$2,036,028,141</u>
 The ratio of system's assets to total actuarial liability was	 62.4%
As of that date the total covered employee payroll was	\$1,067,492,000

The normal cost for employees on that date was 8.91% of payroll
The normal cost for the employer was 4.20% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum
Rate of Salary Increase: 6.00% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2004

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2004	3,384,814,000	5,420,842,000	2,036,028,000	62.4%	1,067,492,000	190.7%
1/1/2003	3,204,893,000	5,121,319,000	1,916,426,000	62.6%	1,099,779,000	174.3%
1/1/2002	3,371,716,000	4,796,130,000	1,424,414,000	70.3%	1,052,420,000	135.3%
1/1/2001	3,211,692,000	4,256,714,000	1,045,022,000	75.5%	990,325,000	105.5%
1/1/2000	2,979,953,000	4,101,383,000	1,121,430,000	72.7%	943,167,000	118.9%

Boston Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Superannuation	305	756	543	338	318	396	498	709	795	335
Ordinary Disability	7	9	5	18	5	6	9	14	6	5
Accidental Disability	34	35	33	40	30	56	45	73	55	54
Total Retirements	346	800	581	396	353	458	552	796	856	394
Total Retirees, Beneficiaries and Survivors	13,361	13,691	13,742	13,526	13,334	13,192	13,144	13,400	14,006	13,878
Total Active Members	20,172	20,316	20,114	21,634	21,665	21,822	21,222	21,695	20,442	20,882
Pension Payments (000)										
Superannuation	\$109,024	\$117,799	\$132,305	\$131,627	\$134,804	\$141,586	\$149,704	\$162,453	\$192,695	\$216,304
Survivor/Beneficiary Payments	12,353	7,310	7,468	7,794	7,575	7,633	7,576	8,449	8,153	8,114
Ordinary Disability	2,613	3,030	3,000	3,056	3,083	3,218	3,216	2,978	3,352	3,285
Accidental Disability	30,447	29,313	29,595	30,362	30,330	31,755	32,979	35,289	37,953	40,578
Other	<u>18,449</u>	<u>19,565</u>	<u>19,829</u>	<u>20,425</u>	<u>20,844</u>	<u>14,838</u>	<u>15,018</u>	<u>15,024</u>	<u>15,494</u>	<u>15,666</u>
Total Payments for Year	<u>\$172,886</u>	<u>\$177,017</u>	<u>\$192,197</u>	<u>\$193,264</u>	<u>\$196,636</u>	<u>\$199,030</u>	<u>\$208,493</u>	<u>\$224,193</u>	<u>\$257,647</u>	<u>\$283,947</u>

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